

SOUTHWEST BEHAVIORAL HEALTH CENTER

BASIC FINANCIAL STATEMENTS
AND ADDITIONAL INFORMATION
WITH INDEPENDENT AUDITORS' REPORT

FOR THE YEAR ENDED JUNE 30, 2006

SOUTHWEST BEHAVIORAL HEALTH CENTER
FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
FOR THE YEAR ENDED JUNE 30, 2006

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HAFEN
BUCKNER
EVERETT
& GRAFF, PC
CERTIFIED PUBLIC
ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

TO THE AUTHORITY BOARD
SOUTHWEST BEHAVIORAL HEALTH CENTER
ST. GEORGE, UTAH

We have audited the accompanying financial statements of the governmental activities and the major fund of Southwest Behavioral Health Center (the Center), as of and for the year ended June 30, 2006, which collectively comprise the Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and the major fund of Southwest Behavioral Health Center as of June 30, 2006, and the respective changes in financial position thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 12, 2006, on our consideration of the Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of testing, and not to provide an opinion on the internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the Center's basic financial statements. The combining financial statements listed in the table of contents are presented for purposes of additional analysis and is not a required part of the basic financial statements of the Center. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the basic financial statements of the Center. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Hafen Buckner Everett & Graff, PC

HAFEN, BUCKNER, EVERETT & GRAFF, PC
October 12, 2006

Southwest Behavioral Health Center

Management's Discussion and Analysis

This section of the Basic Financial Statement presents management's discussion and analysis of Southwest Behavioral Health Center's financial performance during the year ending June 30, 2006. Readers are encouraged to consider the information presented here in conjunction with additional information furnished in the Independent Auditor's report.

History and Background of Southwest Behavioral Health Center

Southwest Behavioral Health Center was created in January 1986 to provide mental health and substance abuse treatment and prevention services throughout southwestern Utah, including the counties of Beaver, Garfield, Kane, Iron and Washington. The Center, a separate, legal, political entity, was established by the five counties under the state's Inter-local Cooperative Agreement Act. The Center has gone through several name changes over the years to better reflect its mission. Originally known as Southwest Utah Mental Health/Alcohol & Drug Center, the name was shortened in 1996 to Southwest Center. In 2004, the Board authorized a name change to Southwest Behavioral Health Center.

Southwest Behavioral Health Center employs nearly 175 part and full-time workers, providing critically needed services to roughly 4000 residents of southwestern Utah. Prevention services impact approximately 10,000 children each year through school assemblies and other programs, such as Red Ribbon Week.

Financial Highlights

- The Center's assets exceeded liabilities by \$10.8m at the close of the most recent fiscal year up from \$10.1m in fiscal year 2005. This represents a 7.5 percent increase over prior year.
- Unrestricted Net Assets as of June 30, 2006 were \$1.6m, as compared to \$3.2m in 2005, primarily due to the new \$1.3m reserve for capital projects.
- Cash, receivables and deposits amounted to 60.7 percent of the Center's total assets (including capital assets) of \$20.8m. This is up 1.9 percent from the prior year.
- Fiscal year 2006 revenues decreased by \$833,673 from FY 2005, with the largest single revenue source continuing to be Federal Medicaid at \$5.1m or 44.4 percent of total revenues.
- Fiscal year 2006 operating expenditures (excluding capital outlay) decreased by \$85,599 compared to the prior year. Most of this decrease was generated by the elimination of the Eagle Quest residential and outpatient programs. Personnel-related costs amounted to 68.4 percent of total expenditures.
- Unreserved Fund Balance, or the amount of available resources that has not been earmarked for a specific purpose or legally restricted amounted to \$2.4m as of June 30, 2006. This reflects a decrease of \$1.6m from the previous year, \$1.3m of which is due to a new Reserve for Capital Projects.

Overview of the Financial Statements

This discussion is intended to serve as an introduction to the Center's basic financial statements. These basic financial statements comprise two primary components: 1) financial statements, and 2) notes to the financial statements. Southwest Behavioral Health Center is a special-purpose governmental entity engaged only in governmental activities, so the fund

financial statement is the only financial statement provided. The report also includes other supplementary information.

Financial Statements

The financial statements are designed to provide readers with a broad overview of the Center's finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of the assets and liabilities of the Center, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Center is improving or deteriorating.

The Statement of Activities presents information showing how the net assets of the Center changed during the most recent fiscal year. All changes on net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal year periods (e.g., uncollected revenues and earned, but unused vacation leave). This entity-wide statement delineates Center activities that are intended to recover all or a significant portion of their costs through user fees and charges. The Center's primary activities are mental health treatment and substance abuse treatment & prevention services, and associated administrative costs.

Notes to the Financial Statement

The notes provide additional information that is essential to fully understanding the Center's financial statements. Please review them carefully; there is a wealth of information contained in this section.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information concerning the Center's functional expenses and a schedule of federal awards.

Financial Analysis

Net Assets

As previously noted, net assets may serve over time as a useful indicator of an entity's financial position. In the case of Southwest Behavioral Health Center, assets exceeded liabilities by \$10.8m at the close of fiscal year 2006. This represents an increase over the prior year of \$752,412, demonstrating that the Center's financial position continues to be stable and sound.

The largest single asset of the Center is cash and cash equivalents (investments) totaling \$11.9m. The second largest of the Center's assets is the investment in capital assets (\$8.2m) such as land, building, vehicles and equipment (see detail in the Capital Asset table). The Center uses these capital assets to provide services to clients; consequently, these assets are not available for future spending. Although the Center's investment in its capital assets net of related debt totals \$3.5m, it should be noted that the resources needed to repay this debt must be provided from other sources, as the capital assets themselves cannot be used to liquidate these liabilities.

SUMMARY of Net Assets

| | <u>2006</u> | <u>2005</u> | <u>Change</u> |
|---|---------------------|---------------------|----------------------|
| Current and Other Assets | \$12,643,926 | \$11,080,073 | \$1,563,853 |
| Capital Assets | <u>\$8,199,927</u> | <u>\$7,775,577</u> | <u>\$424,350</u> |
| Total Assets | \$20,843,853 | \$18,855,650 | \$ 1,988,203 |
| Current and Other Liabilities | \$2,735,326 | \$3,254,340 | (\$519,014) |
| Long-term Debt and Other Long-term Liabilities | <u>\$7,283,270</u> | <u>\$5,528,465</u> | <u>\$1,754,805</u> |
| Total Liabilities | \$10,018,596 | \$8,782,805 | \$1,235,791 |
| Net Assets: | | | |
| Invested in Capital Assets, net of related debt | \$3,477,249 | \$2,695,087 | \$782,162 |
| Restricted | \$5,756,933 | \$4,152,734 | \$1,604,199 |
| Unrestricted | <u>\$1,591,075</u> | <u>\$3,225,024</u> | <u>(\$1,633,949)</u> |
| Total Net Assets | <u>\$10,825,257</u> | <u>\$10,072,845</u> | <u>\$752,412</u> |

Governmental Activities

For fiscal year 2006, expenditures related to Mental Health services totaled \$5.8m roughly the same as the previous year. Expenditures related to Substance Abuse services increased by 8.8 percent to \$2.3m and expenditures for Other services decreased by 70.4 percent to \$203,520 due to the elimination of the Eagle Quest programs. The amount expended for Administration of entity-wide activities increased 26 percent from the previous year to \$2.6m in 2006. The increase is primarily attributable to reclassifications between categories, such as debt services expenditures, which were previously allocated between all areas.

General Fund Budgetary Highlights

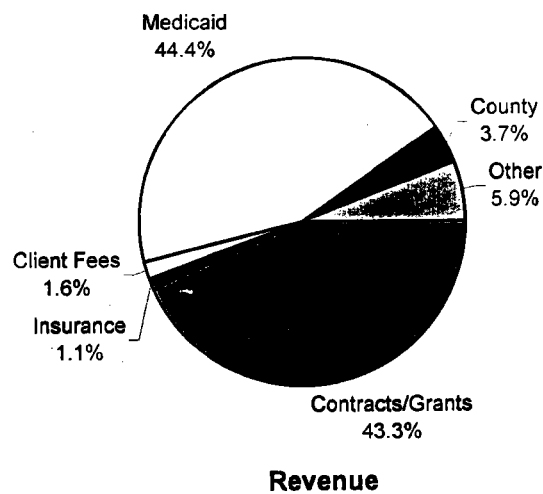
During the year, the Southwest Behavioral Health Center Authority Board approved and revised the Center's budget. Budget amendments were made to reflect changes in programs and related funding. Total expenditures including capital outlay during 2006 amounted to \$11.5m, or 7.7 percent less than budgeted, primarily attributable to unexpended funds budgeted for the transitional housing project that will be expended in fiscal year 2007, and savings generated from eliminating the Eagle Quest programs. Revenues realized during the year were higher than final budgeted figures by \$257,036. This was primarily due to over-realized interest earnings and Medicaid contract revenue. Medicaid contract revenue was however 14.2% lower than in fiscal year 2005 since the State continued to make changes to its process used to establish per capita rates for Utah's capitated mental health centers. In that process, an independent actuary compares service levels and allowed costs, by center, and then averages that data across rural and urban agencies. Management anticipates that for fiscal year 2007 those rates will either be maintained at the 2006 level or raised slightly, rather than seeing further reductions.

The following table compares the original budget and the revised budget to actual figures at year-end:

**SUMMARY of Actual Revenues & Expenditures
Compared to Budget**

| | Original Budget | Amended Budget | Actual |
|---|--------------------|-------------------|------------|
| Total Revenues | 11,008,427 | 11,273,472 | 11,530,508 |
| Total Expenditures including Capital Outlay | 10,918,971 | 12,323,403 | 11,529,500 |
| Excess (Deficit) Of Revenues Over Expenditures | 89,456 | (1,049,931) | 1,008 |
| Capital Outlay | 348,836 | 1,706,369 | 1,394,424 |

The following chart depicts the Center's revenues by major source:



COMPARISON of Revenue Sources by Year

| | Fiscal Year 2006 | Fiscal Year 2005 | Percent + / (-) '05 to '06 |
|-------------------|---------------------|---------------------|-------------------------------|
| Contract & Grants | \$4,989,391 | \$4,982,907 | 0.1% |
| Medicaid | \$5,119,726 | \$5,965,193 | (14.2%) |
| County | \$425,875 | \$406,393 | 4.8% |
| Client Fees | \$144,055 | \$177,376 | (18.8%) |
| Insurance | \$128,245 | \$109,634 | 17.0% |
| Other | \$723,216 | \$722,678 | 0.1% |
| Total | \$11,530,508 | \$12,364,181 | (6.7%) |

Capital Asset and Debt Administration

Capital Assets

The following table is a comparison of Net Capital Assets for fiscal years 2004, 2005 and 2006:

SUMMARY of Net Capital Assets As of June 30

| | 2006 | 2005 | 2004 |
|--------------------------|---------------|---------------|---------------|
| Land and Improvements | \$1,383,954 | \$1,378,954 | \$1,348,440 |
| Buildings | \$8,106,127 | \$7,376,144 | \$7,261,909 |
| Construction in Progress | \$389,678 | \$59,953 | \$0 |
| Vehicles | \$254,539 | \$245,816 | \$245,816 |
| Furniture, Equipment | \$404,274 | \$822,642 | \$665,202 |
| Leasehold Improvements | \$12,875 | \$12,875 | \$12,875 |
| Depreciation | (\$2,351,520) | (\$2,120,807) | (\$1,906,195) |
| Total Net Capital Assets | \$8,199,927 | \$7,775,577 | \$7,628,047 |

The significant changes in Capital Assets during fiscal year 2006 were the construction of the new Beaver County office complex (\$715,277), the acquisition of land (\$5,000) and an office building (\$10,200) in Milford, and Independence House facility renovations (\$11,880). In addition, Construction in Progress reflects costs incurred to date on three transitional housing units in St. George and several items of furniture and fixtures not meeting the capitalization criteria were deleted from the capital asset furniture account (\$418,369).

Long-term Debt

The Center incurred no additional long-term debt during the year and made all legally required payments of principal and interest on existing debt obligations. Principal repayment amounted to \$313,619 during fiscal year 2006, with \$230,643 in related interest expense. The mortgage payable to Chase Home Mortgage Company on a transitional housing duplex in St. George was paid in full in August 2005.

The following table represents a summary of the Center's long-term debt, by type, and a comparison to prior year. Further details, by project, can be found in the footnotes to this financial statement:

SUMMARY of Long-Term Debt As of June 30

| | 2006 | 2005 |
|---------------------------|-------------|-------------|
| Capital Leases | \$4,797,000 | \$5,063,000 |
| Notes Payable | \$317,611 | \$365,054 |
| Accrued Leave (long-term) | \$359,857 | \$372,631 |
| Total | \$5,474,471 | \$5,800,685 |

Planned capital asset additions for the 2007 fiscal year include the completion of the three-unit Transitional Housing Project in Washington County, with occupancy expected in October, 2006, acquisition of a new facility in Iron County to house the Oasis House activity, and initial phases of construction of a new office complex in Kane County, to be funded by either a borrowing through the Community Impact Funding Board or from available reserves.

Request for Information

This financial report is designed to provide interested parties with a general overview of the Center's financial status. Questions concerning any of the reports and/or information contained in this financial audit, or requests for additional financial information, should be addressed to Southwest Behavioral Health Center, ATTN: Robert W. Powell, Controller, 474 West 200 North, Suite 300, St. George, UT 84770.

SOUTHWEST BEHAVIORAL HEALTH CENTER

Statement of Net Assets

June 30, 2006

| | Governmental Activities |
|---|----------------------------|
| Assets: | |
| Cash & Cash Equivalents (Note 2) | \$ 11,494,033 |
| Receivables (Note 3) | 714,490 |
| Due From Agency Fund | 7,930 |
| Restricted Cash (Note 2) | 391,933 |
| Deposits & Other Assets | 35,540 |
| Capital Assets (Note 4) (net of accumulated depreciation) | 8,199,927 |
| Total Assets | <u>20,843,853</u> |
| Liabilities: | |
| Accounts Payable | 476,947 |
| Accrued Interest | 63,488 |
| Other Current Liabilities | 2,194,891 |
| Long-Term Debt: | |
| Due within one year (Notes 7 & 8) | 281,100 |
| Due in more than one year (Notes 7 & 8) | 4,833,511 |
| Accrued Leave (Long-Term Portion, See Note 7) | 359,857 |
| Deferred Revenue (Note 10) | 1,808,802 |
| Total Liabilities | <u>10,018,596</u> |
| Net Assets: | |
| Invested in Capital Assets, net of related debt | 3,477,249 |
| Restricted for (Note 10): | |
| Debt Service | 391,933 |
| Self Funded Insurance | 125,000 |
| Per Medicaid Contract | 1,870,000 |
| Medicaid Inpatients | 200,000 |
| 60-day Operating Capital | 1,870,000 |
| Capital Projects | 1,300,000 |
| Unrestricted | 1,591,075 |
| Total Net Assets | <u>\$ 10,825,257</u> |

The notes to the financial statements are an integral part of this statement.

SOUTHWEST BEHAVIORAL HEALTH CENTER

Statement of Activities
For the Year Ended June 30, 2006

| Function/Program | Program Revenues | | | | Net Revenue (Expense) and Changes in Net Assets |
|--------------------------------------|----------------------|-------------------------|--|--|--|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Total Governmental Activities |
| Governmental Activities: | | | | | |
| Mental Health Services | \$ 5,766,175 | \$ 4,158,213 | \$ 2,647,281 | \$ - | \$ 1,039,319 |
| Substance Abuse Services | 2,251,118 | 423,320 | 1,846,161 | - | 18,363 |
| Other Services | 203,520 | - | 40,906 | - | (162,614) |
| Administration | 2,557,283 | 1,057,663 | 922,549 | - | (577,071) |
| Total Governmental Activities | <u>\$ 10,778,096</u> | <u>\$ 5,639,196</u> | <u>\$ 5,456,897</u> | <u>\$ -</u> | <u>317,997</u> |
| General Revenues: | | | | | |
| Other | | | | | 6,509 |
| Interest Earnings | | | | | <u>427,906</u> |
| Total General Revenues | | | | | <u>434,415</u> |
| Change in Net Assets | | | | | <u>752,412</u> |
| Net Assets at Beginning of Year | | | | | <u>10,072,845</u> |
| Net Assets at End of Year | | | | | <u>\$ 10,825,257</u> |

The notes to the financial statements are an integral part of this statement.

SOUTHWEST BEHAVIORAL HEALTH CENTER

Balance Sheet Governmental Funds June 30, 2006

| | <u>Major Fund</u> |
|--|-----------------------------|
| | <u>General Fund</u> |
| ASSETS | |
| Cash & Cash Equivalents (Note 2) | \$ 11,494,033 |
| Receivables (Note 3) | 714,490 |
| Due From Other Funds | 7,930 |
| Restricted Cash | 391,933 |
| Deposits & Other Assets | <u>35,540</u> |
| Total Assets | <u><u>\$ 12,643,926</u></u> |
| LIABILITIES AND FUND BALANCES: | |
| Liabilities: | |
| Accounts Payable | \$ 476,947 |
| Other Liabilities (Note 7) | 2,194,891 |
| Deferred Revenue | <u>1,808,802</u> |
| Total Liabilities | <u>4,480,640</u> |
| Fund Balances: | |
| Fund Balances (Note 10): | |
| Reserved for Debt Service | 391,933 |
| Reserved for Self Funded Insurance | 125,000 |
| Reserved Per Medicaid Contract | 1,870,000 |
| Reserved for Medicaid Inpatients | 200,000 |
| Reserved for 60-day Operating Capital | 1,870,000 |
| Reserved for Future Capital Projects | 1,300,000 |
| Unreserved | <u>2,406,353</u> |
| Total Fund Balances | <u>8,163,286</u> |
| Total Liabilities & Fund Balances | <u><u>\$ 12,643,926</u></u> |

The notes to the financial statements are an integral part of this statement.

SOUTHWEST BEHAVIORAL HEALTH CENTER
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
June 30, 2006

Total fund balances for governmental funds \$ 8,163,286

Total net assets reported for governmental activities differs from the statement of net assets as follows:

Capital assets used in governmental funds are not financial resources and therefore are not reported in the funds. Those assets consist of the following:

| | | |
|-----------------------------|--------------------|------------------|
| Land | \$ 1,087,197 | |
| Projects in Progress | 389,678 | |
| Land Improvements | 296,757 | |
| Furniture & Fixtures | 47,609 | |
| Machines & Equipment | 356,665 | |
| Vehicles | 254,539 | |
| Buildings & Improvements | 8,106,127 | |
| Leasehold Improvements | 12,875 | |
| Accumulated Depreciation | <u>(2,351,520)</u> | |
| Total Capital Assets | | 8,199,927 |

Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. Accrued interest for general long-term debt is \$63,488. (63,488)

Long-term Liabilities that pertain to governmental funds, including bonds payable, are not due and payable in the current period and therefore are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net assets. Balances at year-end follow:

| | | |
|------------------------------------|------------------|--------------------|
| Capital Leases | \$ (4,797,000) | |
| Notes Payable | (317,611) | |
| Accrued Leave (Long-Term Portion) | <u>(359,857)</u> | |
| Total Long-term Liabilities | | (5,474,468) |

Total net assets of governmental activities

\$ 10,825,257

The notes to the financial statements are an integral part of this statement.

SOUTHWEST BEHAVIORAL HEALTH CENTER
Combined Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
Year Ended June 30, 2006

| | <u>General Fund</u> |
|---|----------------------------|
| REVENUES: | |
| Contracts & Grants | \$ 4,989,391 |
| Medicaid | 5,119,726 |
| Local Participation | 425,875 |
| Client Fees | 144,055 |
| Insurance Payments | 128,245 |
| Interest Income | 427,906 |
| Other Collections/Fees | 192,619 |
| Miscellaneous | 102,691 |
| Total Revenues | <u>11,530,508</u> |
| EXPENDITURES: | |
| Salaries & Wages | 5,222,866 |
| Fringe | 1,919,272 |
| Total Payroll & Related Expenses | <u>7,142,138</u> |
| Professional Fees & Subcontracts | 1,225,876 |
| Travel | 234,686 |
| Workshops & Training | 84,163 |
| Supplies & Services | 428,650 |
| Space/Maintenance | 353,916 |
| Communications | 259,887 |
| Insurance | 139,987 |
| Capital Outlay | 1,080,805 |
| Miscellaneous | 35,130 |
| Debt Service: | |
| Principal Retirement | 313,619 |
| Interest | 230,643 |
| Total Expenditures | <u>11,529,500</u> |
| Excess (Deficit) Of Revenues Over Expenditures | 1,008 |
| Beginning Fund Balances | <u>8,162,278</u> |
| ENDING FUND BALANCE | <u><u>\$ 8,163,286</u></u> |

The notes to the financial statements are an integral part of this statement.

SOUTHWEST BEHAVIORAL HEALTH CENTER
Reconciliation of the Statement of Revenues, Expenditures, and Changes in
Fund Balances of Government Funds to the Statement of Activities
Year Ended June 30, 2006

| | | |
|--|----|-------|
| Net change in fund balances - total governmental funds | \$ | 1,008 |
|--|----|-------|

Amounts reported for governmental activities differs from the statement of activities as follows:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets with an initial, individual cost of more than \$5,000 are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

| | | |
|------------------------------------|------------------|---------|
| Capital Outlays | \$ 1,080,805 | |
| Loss on disposal of capital assets | (287,130) | |
| Depreciation | <u>(369,325)</u> | |
| Total Capital Assets | | 424,350 |

The governmental funds report bond proceeds as financing sources, while repayment of bond principal is reported as an expenditure. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities and repayment of principal reduces the liability. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, however, interest expense is recognized as it accrues, regardless of when it is due. The net effect of these differences in the treatment of general long-term debt and related items is as follows:

| | | |
|---------------------------------------|---------------|----------------|
| Repayment of Long-Term Debt Principal | \$ 313,619 | |
| Interest Expense | 661 | |
| Accrued Leave (long-term portion) | <u>12,774</u> | |
| Total Long-term Liabilities | | <u>327,054</u> |

| | | |
|---|----|-----------------------|
| Change in net assets of governmental activities | \$ | <u><u>752,412</u></u> |
|---|----|-----------------------|

The notes to the financial statements are an integral part of this statement.

SOUTHWEST BEHAVIORAL HEALTH CENTER**Combined Statement of Fiduciary Net Assets****June 30, 2006**

| | <u>Agency Funds</u> |
|----------------------------------|-------------------------|
| ASSETS | |
| Cash & Cash Equivalents (Note 2) | \$ 18,084 |
| Accounts Receivable | <u>2,367</u> |
| Total Assets | <u><u>\$ 20,451</u></u> |
| LIABILITIES | |
| Accounts Payable | \$ 3,697 |
| Due To Other Funds | 7,930 |
| Other Liabilities (Note 7) | <u>8,824</u> |
| Total Liabilities | <u><u>\$ 20,451</u></u> |

The notes to the financial statements are an integral part of this statement.

SOUTHWEST BEHAVIORAL HEALTH CENTER

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2006

The Southwest Behavioral Health Center (the Center) was officially formed on January 1, 1985. In accordance with provisions of Utah State Law the elected county commissions from Beaver, Garfield, Iron, Kane and Washington counties have established a mental health/alcohol & drug authority board to govern the operation of the Center. This Board consists of one designated county commissioner and/or citizen representative from each of the five counties. Effective July 1, 2005, the Center changed its name from Southwest Center. Prior to July 1, 1996, the Center was known as Southwest Utah Mental Health/Alcohol & Drug Center.

The Center is established to provide quality comprehensive mental health and alcohol and drug treatment and prevention services to the residents of the five county area by means of promoting, maintaining and restoring positive emotional, psychological and psychosocial well being for individuals, families and communities.

NOTE 1: SUMMARY OF ACCOUNTING AND REPORTING POLICIES

The accounting and reporting policies of the Southwest Behavioral Health Center (the Center) conform with generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant policies.

Reporting Entity - The reporting entity is defined as the oversight unit and all related component units. The following definitions and criteria were used in determining the units to be included in the general purpose financial statements. The oversight unit is the component unit that has the ability to exercise the basic criterion of oversight responsibility. Oversight responsibility is derived from the governmental unit's power and includes, but is not limited to: a) financial interdependency, b) selection of governing authority, c) designation of management, d) ability to significantly influence operations, and e) accountability for fiscal matters. Oversight responsibility implies that a governmental unit is dependent on another and the dependent unit should be reported as part of the other. An oversight unit is the primary unit of government directly responsible to the authority board.

The component unit is a separate governmental unit, agency, or nonprofit corporation that is evaluated pursuant to the criteria listed above to determine if it is to be combined with other component units and the oversight unit to constitute the reporting entity. Based on the application of these criteria, no additional component units have been included.

Government-wide and Fund Financial Statements - The *government-wide financial statements* (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the activities of the Center. These statements include the financial activities of the overall government, except for fiduciary activities.

SOUTHWEST BEHAVIORAL HEALTH CENTER

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2006

NOTE 1: SUMMARY OF ACCOUNTING AND REPORTING POLICIES (CONTINUED)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those which are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues. The Center only operates one governmental-type fund.

Measurement focus, basis of accounting, and financial statement presentation - The government-wide financial statements are reported using the *economic measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items, are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Center considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Grant revenue is recognized when qualified expenditures are incurred and a contractual claim exists with the grantor agency. All other revenue items are considered to be measureable and available only when cash is received by the Center.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. The Center reports the following major governmental funds:

General Fund - The General fund is the general operating fund of the Center and accounts for all revenues and expenditures not designated to other funds.

In addition the Center reports the following Fiduciary Funds:

Agency Funds - Transactions related to assets held by the Center as an agent for individual and private organizations are accounted as an agency fund. Agency Funds include assets held by the Center for Local Interagency Children and for employees in conjunction with the Center's cafeteria plan.

SOUTHWEST BEHAVIORAL HEALTH CENTER

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2006

NOTE 1: SUMMARY OF ACCOUNTING AND REPORTING POLICIES (CONTINUED)

Capital Assets - The fixed assets of the Center, which include land, land improvements, buildings and improvements, furniture and fixtures, machines and equipment, and vehicles are reported in the government-wide financial statements. The Center defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Purchased or constructed capital assets are reported at cost. Donated capital assets are recorded at estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extended assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction is not capitalized.

Capital assets of the Center are depreciated using the straight-line method over the following estimated useful lives:

| <u>Assets</u> | <u>Years</u> |
|----------------------------|--------------|
| Land Improvements | 5 - 15 |
| Buildings and Improvements | 5 - 30 |
| Leasehold Improvements | 10 |
| Vehicles | 3 - 5 |
| Machines and Equipments | 5 - 20 |
| Furniture and Fixtures | 5 - 20 |

Long-Term Obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable statement of net assets.

In the fund financial statements, governmental fund types report the face amount of debt issued as other financing sources.

Budgetary Data - The Center adopts a budget for the General Fund. The adopted budget is prepared using the same basis of accounting as the Center's financial statements. All budget amounts presented in the accompanying financial statements have been adjusted for legally authorized revisions of the annual budgets during the year.

Compensated Absences - The current portion of accumulated unpaid vacation and other employee benefit amounts are included in accrued liabilities. The long-term portion is included in the government-wide financial statements.

SOUTHWEST BEHAVIORAL HEALTH CENTER

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2006

NOTE 2: CASH AND INVESTMENTS

The Center follows the requirements of the Utah Money Management Act (Utah Code Annotated 1953, Section 51, Chapter 7) in handling its depository and investing transactions. Center funds are deposited in qualified depositories as defined by the Act. The Act also authorizes the Center to invest in the Utah Public Treasurers' Investment Fund (PTIF), certificates of deposit, U.S. Treasury obligations, U.S. agency issues, high-grade commercial paper, banker's acceptances, repurchase agreements, corporate bonds, restricted mutual funds, and obligations of governmental entities within the State of Utah.

The PTIF is invested in accordance with the Act. The State Money Management Council provides regulatory oversight for the PTIF. The degree of risk of the PTIF depends upon the underlying portfolio. The Act and Council rules govern the financial reporting requirements of qualified depositories in which public funds may be deposited and prescribe the conditions under which the designation of a depository shall remain in effect. If a qualified depository should become ineligible to hold public funds, public treasurers are notified immediately. The Center considers the actions of the Council to be necessary and sufficient for adequate protection of its uninsured bank deposits.

The Center pools its cash and investments into various demand and interest-bearing accounts. A summary of the cash and investments at June 30, 2006 is as follows:

| | <u>Carrying Amount</u> | <u>Fair Value</u> |
|-----------------------|----------------------------|-----------------------|
| State Treasurer | \$ 10,116,643 | \$10,113,406 |
| Trustee Held: | | |
| State Treasurer | 391,933 | 391,808 |
| Demand Accounts | 81,607 | 81,607 |
| Money Market Accounts | 1,289,814 | 1,289,814 |
| Petty Cash | 5,675 | 5,675 |
| Other | <u>294</u> | <u>294</u> |
| Total | <u>\$ 11,885,966</u> | <u>\$ 11,882,604</u> |

At June 30, 2006, the carrying amount of the Center's deposits was \$1,371,421 and the bank balances were \$1,522,357. Of the bank balances, \$202,904 was covered by Federal Depository Insurance and \$1,319,453 was uninsured and uncollateralized nor are they required to be by State statute.

SOUTHWEST BEHAVIORAL HEALTH CENTER

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

NOTE 3: RECEIVABLES

Receivables consist mainly of amounts due from state and local agencies which the Center has contracted with. The amounts due are for reimbursable expenditures made and services rendered prior to June 30, 2006, and billed to the appropriate agencies.

NOTE 4: CAPITAL ASSETS

The following is the Capital Asset activity for the year ended June 30, 2006:

| | Balance 6/30/2005 | Additions | Retirements | Transfers | Balance 6/30/2006 |
|--|----------------------------|--------------------------|----------------------------|--------------------|---------------------------|
| Capital assets, not being depreciated: | | | | | |
| Land | \$1,082,197 | \$ 5,000 | \$ — | \$ — | \$1,087,197 |
| Work in Progress | 59,953 | 389,678 | — | (59,953) | 389,678 |
| Total not being depreciated | <u>1,142,150</u> | <u>394,678</u> | <u>—</u> | <u>(59,953)</u> | <u>1,476,875</u> |
| Capital assets, being depreciated: | | | | | |
| Land Improvements | 296,757 | — | — | — | 296,757 |
| Vehicles | 245,816 | 8,723 | — | — | 254,539 |
| Furniture & Fixtures | 465,977 | — | (418,368) | — | 47,609 |
| Machinery & Equipment | 356,665 | — | — | — | 356,665 |
| Buildings & Improvements | 7,376,144 | 677,404 | (7,373) | 59,953 | 8,106,127 |
| Leasehold Improvements | 12,875 | — | — | — | 12,875 |
| Total being depreciated | <u>8,754,234</u> | <u>686,127</u> | <u>(425,741)</u> | <u>59,953</u> | <u>9,074,573</u> |
| Accumulated Depreciation | <u>(2,120,807)</u> | <u>(369,325)</u> | <u>138,611</u> | <u>—</u> | <u>(2,351,520)</u> |
| TOTAL CAPITAL ASSETS, NET | <u>\$ 7,775,577</u> | <u>\$ 711,480</u> | <u>\$ (287,130)</u> | <u>\$ —</u> | <u>\$8,199,927</u> |

Depreciation expense for the year ended June 30, 2006 was allocated to the following activities:

| | |
|-----------------------------------|--------------------------|
| Mental Health | \$ 181,182 |
| Substance Abuse | 140,077 |
| Other Programs | 32,780 |
| Administration | <u>15,286</u> |
| Total Depreciation Expense | <u>\$ 369,325</u> |

SOUTHWEST BEHAVIORAL HEALTH CENTER

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2006

NOTE 5: RETIREMENT PLAN

The Center contributes to the Local Governmental Contributory Retirement System and Local Governmental Noncontributory Retirement System cost sharing multiple-employer defined benefit pension plans administered by the Utah Retirement Systems (Systems). The Systems provide retirement benefits, annual cost of living adjustments, death benefits and refunds to plan members and beneficiaries in accordance with retirement statutes established and amended by the State Legislature.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended, which also establishes the Utah State Retirement Office (Office) for the administration of the Utah Retirement Systems and Plans. Chapter 49 places the Systems, the Office and related plans and programs under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Systems and Plans. A copy of the report may be obtained by the writing to the Utah Retirement System, 540 East 200 South, Salt Lake City, UT 84102 or by calling 1-800-365-8772.

Funding Policy. Plan members required to contribute a percent of their covered salary (all or part may be paid by the employer) to the respective systems to which they belong. The Center is required to contribute 11.09% of their annual covered salary. The contribution requirements of the Systems are authorized by statute and specified by the board.

The required contributions and amounts received for the 2005/2006 fiscal year and the two previous years are as follows:

| <u>System</u> | <u>Year</u> | <u>Employee Paid Contributions</u> | <u>Employee Contributions Employer Paid</u> | <u>Employer Contributions</u> | <u>Salary Subject to Retirement Contributions</u> |
|--------------------------------------|-------------|--|---|-----------------------------------|---|
| Local Governmental - Noncontributory | 2006 | N/A | N/A | \$ 537,155 | \$ 4,843,616 |
| | 2005 | N/A | N/A | 550,066 | 4,958,572 |
| | 2004 | N/A | N/A | 493,548 | 5,130,493 |
| 457 Plan Contributions | 2006 | \$ 32,173 | \$ — | N/A | |
| | 2005 | 8,796 | — | N/A | |
| | 2004 | 3,932 | — | N/A | |
| 401(k) Contributions | 2006 | \$ 201,758 | \$ 4,637 | N/A | |
| | 2005 | 188,588 | 6,159 | N/A | |
| | 2004 | 172,738 | 7,236 | N/A | |
| Roth IRA Plan | 2006 | 910 | N/A | N/A | |
| | 2005 | N/A | N/A | N/A | |
| | 2004 | N/A | N/A | N/A | |

SOUTHWEST BEHAVIORAL HEALTH CENTER

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2006

NOTE 6: LONG-TERM DEBT

Long-Term Debt at June 30, 2006, consisted of the following:

In August, 1996, the Center entered into a capital lease payable to Zions First National Bank in order to finance the purchase of a residential duplex in Cedar City, Utah. The lease calls for annual payments ranging from \$12,369 to \$13,379 including interest ranging from 5.5 percent to 6.2 percent with a maturity date of August, 2016. The remaining debt service is as follows:

| Year Ending <u>June 30</u> | <u>Principal</u> | <u>Interest</u> | Annual Debt <u>Service</u> |
|-------------------------------|-------------------|------------------|-------------------------------|
| 2007 | \$ 7,000 | \$ 6,086 | \$ 13,086 |
| 2008 | 7,000 | 5,653 | 12,653 |
| 2009 | 8,000 | 5,236 | 13,236 |
| 2010 | 8,000 | 4,760 | 12,760 |
| 2011 | 9,000 | 4,284 | 13,284 |
| 2012 | 9,000 | 3,749 | 12,749 |
| 2013 | 10,000 | 3,213 | 13,213 |
| 2014 | 10,000 | 2,618 | 12,618 |
| 2015 | 11,000 | 2,023 | 13,023 |
| 2016 | 11,000 | 1,368 | 12,368 |
| 2017 | 12,000 | 714 | 12,714 |
| Totals | <u>\$ 102,000</u> | <u>\$ 39,704</u> | <u>\$ 141,704</u> |

In May, 1999, the Center issued its Certificates of Participation Series 1999 in the amount of \$2,160,000 in order to finance the construction of an office building in Cedar City, Utah. The certificates were sold to Zions First National Bank and a capital lease payable for the land and improvements was executed concurrently with the bank to secure payment. Principal payments ranging from \$90,000 to \$150,000 are due annually in June, with interest payments ranging from \$4,163 to \$60,783 due semi-annually in December and June. Interest rates on the lease range from 5.35 percent to 5.75 percent with a maturity of June, 2020. Each year, the Center has the option of revoking this lease but does not intend to exercise this option. The remaining debt service is as follows:

| Year Ending <u>June 30</u> | <u>Principal</u> | <u>Interest</u> | Annual Debt <u>Service</u> |
|-------------------------------|---------------------|-------------------|-------------------------------|
| 2007 | \$ 105,000 | \$ 90,975 | \$ 195,975 |
| 2008 | 110,000 | 85,043 | 195,043 |
| 2009 | 120,000 | 78,772 | 198,772 |
| 2010 | 90,000 | 71,873 | 161,873 |
| 2011 | 90,000 | 66,877 | 156,877 |
| 2012 | 100,000 | 61,883 | 161,883 |
| 2013 | 105,000 | 56,332 | 161,332 |
| 2014 | 110,000 | 50,505 | 160,505 |
| 2015 | 115,000 | 44,400 | 159,400 |
| 2016 | 125,000 | 38,018 | 163,018 |
| 2017 | 130,000 | 31,080 | 161,080 |
| 2018 | 135,000 | 23,865 | 158,865 |
| 2019 | 145,000 | 16,372 | 161,372 |
| 2020 | 150,000 | 8,325 | 158,325 |
| Totals | <u>\$ 1,630,000</u> | <u>\$ 724,320</u> | <u>\$ 2,354,320</u> |

SOUTHWEST BEHAVIORAL HEALTH CENTER

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

NOTE 6: LONG-TERM DEBT (CONTINUED)

In February, 2004, the Center entered into a mortgage payable of \$330,000 with a private entity, Big Time Developers, LLC. in order to finance the purchase of land and building in Cedar City, Utah. The mortgage calls for monthly payments of \$2,775 including interest at 9.5 percent, with a maturity date of January, 2032. The remaining debt service is as follows:

| <u>Year Ending</u> <u>June 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Annual Debt</u> <u>Service</u> |
|--------------------------------------|-------------------|-------------------|--------------------------------------|
| 2007 | \$ 3,100 | \$ 30,204 | \$ 33,304 |
| 2008 | 3,408 | 29,896 | 33,304 |
| 2009 | 3,746 | 29,558 | 33,304 |
| 2010 | 4,117 | 29,186 | 33,303 |
| 2011 | 4,526 | 28,778 | 33,304 |
| 2012 | 4,975 | 28,328 | 33,303 |
| 2013 | 5,469 | 27,835 | 33,304 |
| 2014 | 6,012 | 27,292 | 33,304 |
| 2015 | 6,608 | 26,695 | 33,303 |
| 2016 | 7,264 | 26,039 | 33,303 |
| 2017 | 7,985 | 25,318 | 33,303 |
| 2018 | 8,778 | 24,526 | 33,304 |
| 2019 | 9,649 | 23,655 | 33,304 |
| 2020 | 10,607 | 22,697 | 33,304 |
| 2021 | 11,659 | 21,644 | 33,303 |
| 2022 | 12,817 | 20,487 | 33,304 |
| 2023 | 14,089 | 19,215 | 33,304 |
| 2024 | 15,487 | 17,817 | 33,304 |
| 2025 | 17,024 | 16,280 | 33,304 |
| 2026 | 18,713 | 14,590 | 33,303 |
| 2027 | 20,571 | 12,733 | 33,304 |
| 2028 | 22,612 | 10,691 | 33,303 |
| 2029 | 24,856 | 8,447 | 33,303 |
| 2030 | 27,323 | 5,980 | 33,303 |
| 2031 | 30,035 | 3,269 | 33,304 |
| 2032 | <u>14,809</u> | <u>548</u> | <u>16,884</u> |
| Totals | <u>\$ 317,611</u> | <u>\$ 531,708</u> | <u>\$ 849,319</u> |

SOUTHWEST BEHAVIORAL HEALTH CENTER

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

NOTE 6: LONG-TERM DEBT (CONTINUED)

In February, 2003, Garfield County, Utah (on behalf of the Center) issued their Revenue Bonds Series B in the amount of \$1,600,000 in order to provide funds for the acquisition and construction of an office complex in St. George, Utah. The bonds were purchased by the State of Utah and the source of payment for the Bonds is the Center lease payments on a capital lease payable with Garfield County secured by the land and improvements. Principal payments ranging from \$70,000 to \$279,000 are due annually in February, with interest payments ranging from \$6,696 to \$38,069 due semi-annually in August and February. Interest rates on the lease range from 2.9 percent to 5.3 percent. The remaining debt service is as follows:

| <u>Year Ending</u> <u>June 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Annual Debt</u> <u>Service</u> |
|--------------------------------------|---------------------|-------------------|--------------------------------------|
| 2007 | \$ 82,000 | \$ 64,287 | \$ 146,287 |
| 2008 | 85,000 | 60,351 | 145,351 |
| 2009 | 90,000 | 56,144 | 146,144 |
| 2010 | 94,000 | 51,598 | 145,598 |
| 2011 | 99,000 | 46,758 | 145,758 |
| 2012 | 104,000 | 41,560 | 145,560 |
| 2013 | 110,000 | 36,048 | 146,048 |
| 2014 | 115,000 | 30,768 | 145,768 |
| 2015 | 121,000 | 25,248 | 146,248 |
| 2016 | 126,000 | 19,440 | 145,440 |
| 2017 | <u>279,000</u> | <u>13,392</u> | <u>292,392</u> |
| Totals | <u>\$ 1,305,000</u> | <u>\$ 445,594</u> | <u>\$ 1,750,594</u> |

SOUTHWEST BEHAVIORAL HEALTH CENTER

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

NOTE 6: LONG-TERM DEBT (CONTINUED)

In February, 2003, Garfield County (on behalf of the Center) issued their Revenue Bonds Series A in the amount of \$2,000,000 in order to provide funds for the acquisition and construction of an office complex in St. George, Utah. The Bonds were purchased by the State of Utah and the source of payment for the Bonds is the Center lease payments on a capital lease payable with Garfield County secured by the land and improvements. The lease calls for annual payments in February ranging from \$128,000 to \$128,900 including interest at 2.5 percent. The remaining debt service is as follows:

| <u>Year Ending</u> <u>June 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Annual Debt</u> <u>Service</u> |
|--------------------------------------|---------------------|-------------------|--------------------------------------|
| 2007 | \$ 84,000 | \$ 44,000 | \$ 128,000 |
| 2008 | 87,000 | 41,900 | 128,900 |
| 2009 | 89,000 | 39,725 | 128,725 |
| 2010 | 91,000 | 37,500 | 128,500 |
| 2011 | 93,000 | 35,225 | 128,225 |
| 2012 | 95,000 | 32,900 | 127,900 |
| 2013 | 98,000 | 30,525 | 128,525 |
| 2014 | 100,000 | 28,075 | 128,075 |
| 2015 | 103,000 | 25,575 | 128,575 |
| 2016 | 105,000 | 23,000 | 128,000 |
| 2017 | 108,000 | 20,375 | 128,375 |
| 2018 | 111,000 | 17,675 | 128,675 |
| 2019 | 114,000 | 14,900 | 128,900 |
| 2020 | 116,000 | 12,050 | 128,050 |
| 2021 | 119,000 | 9,150 | 128,150 |
| 2022 | 122,000 | 6,175 | 128,175 |
| 2023 | <u>125,000</u> | <u>3,125</u> | <u>128,125</u> |
| Totals | <u>\$ 1,760,000</u> | <u>\$ 421,875</u> | <u>\$ 2,181,875</u> |

The following is a summary of the Center's Long-Term Debt by type at June 30, 2006:

| | |
|----------------|---------------------|
| Capital Leases | \$ 4,797,000 |
| Notes Payable | <u>317,611</u> |
| Total | <u>\$ 5,114,611</u> |

SOUTHWEST BEHAVIORAL HEALTH CENTER

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

NOTE 6: LONG-TERM DEBT (CONTINUED)

The following is a summary of Long-Term Debt transactions for the year ended June 30, 2006:

| Balance <u>6/30/2005</u> | <u>New Debt</u> | <u>Repayments</u> | Balance <u>6/30/2006</u> |
|-----------------------------|-----------------|-------------------|-----------------------------|
| \$ 5,428,054 | \$ — | \$ 313,443 | \$ 5,114,611 |

Total remaining debt service by year is as follows:

| <u>Year Ending June 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Annual Debt Service</u> |
|--------------------------------|--------------------|---------------------|--------------------------------|
| 2007 | \$ 281,100 | \$ 235,552 | \$ 516,652 |
| 2008 | 292,407 | 222,842 | 515,249 |
| 2009 | 310,746 | 209,435 | 520,181 |
| 2010 | 287,117 | 194,917 | 482,034 |
| 2011 | 295,526 | 181,922 | 477,448 |
| 2012 | 312,975 | 168,420 | 481,395 |
| 2013 | 328,469 | 153,953 | 482,422 |
| 2014 | 341,012 | 139,258 | 480,270 |
| 2015 | 356,608 | 123,941 | 480,549 |
| 2016 | 374,264 | 107,865 | 482,129 |
| 2017 | 536,985 | 90,879 | 627,864 |
| 2018 | 254,778 | 66,066 | 320,844 |
| 2019 | 268,649 | 54,927 | 323,576 |
| 2020 | 276,607 | 43,072 | 319,679 |
| 2021 | 130,659 | 30,794 | 161,453 |
| 2022 | 134,817 | 26,662 | 161,479 |
| 2023 | 139,089 | 22,340 | 161,429 |
| 2024 | 15,487 | 17,817 | 33,304 |
| 2025 | 17,024 | 16,280 | 33,304 |
| 2026 | 18,713 | 14,590 | 33,303 |
| 2027 | 20,571 | 12,733 | 33,304 |
| 2028 | 22,612 | 10,692 | 33,304 |
| 2029 | 24,856 | 8,447 | 33,303 |
| 2030 | 27,323 | 5,980 | 33,303 |
| 2031 | 30,035 | 3,269 | 33,304 |
| 2032 | 16,182 | 548 | 16,730 |
| Totals | <u>\$5,114,611</u> | <u>\$ 2,163,201</u> | <u>\$ 7,277,812</u> |

SOUTHWEST BEHAVIORAL HEALTH CENTER

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

NOTE 7: OTHER LIABILITIES

Other liabilities of the General Fund at June 30, 2006, consisted of the following:

| | |
|-----------------------------|---------------|
| Medicaid Match Payable | \$ 1,755,914 |
| Payroll Related Liabilities | 423,713 |
| Other Accrued Liabilities | <u>15,264</u> |

Total Other Liabilities **\$ 2,194,891**

Medicaid match payable resulted from the invoice for the last quarter of the fiscal year from the Utah Division of Health Care Financing (DHCF) and amounts held by the Center pending possible corrections of other invoices from the DHCF. The amount accrued is the Medicaid match payment agreed to by the Center and DHCF for year ended June 30, 2006.

Payroll related liabilities include the current accrual for compensated absences which have been estimated at June 30, 2006 to be \$89,964. The amount (\$359,857) that has been considered to be long-term has been included in the government-wide financial statements.

NOTE 8: COMMITMENTS

The following is a schedule by years of future minimum rental payments for facilities and equipment under operating leases that have initial non-cancelable lease terms in excess of one year as of June 30, 2006:

| <u>Year Ending</u> | <u>Equipment</u> |
|--------------------|-------------------------|
| <u>June 30</u> | |
| 2007 | \$33,309 |
| 2008 | 25,163 |
| 2009 | 11,466 |
| 2010 | 6,920 |
| 2011 | <u>3,341</u> |
| TOTAL | <u>\$ 80,199</u> |

Currently all facility leases are month-to-month. Total rent expense incurred by the Center for the year ended June 30, 2006 was \$106,808.

Assets financed through capital leases included in government-wide financial statements (See Note 4) totaled \$1,836,619. The future minimum lease payments for these capital leases were included in the maturities of Long-Term Debt (See Note 6). Amortization of these assets are included in depreciation expense.

SOUTHWEST BEHAVIORAL HEALTH CENTER

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

NOTE 9: LITIGATION

During the ordinary course of its operation, the Center is party to various claims, legal actions, and complaints. In the opinion of the Center's management and legal counsel, these matters are not anticipated to have a material financial impact on the Center as any payment would be covered by the Center's insurance company.

NOTE 10: RESERVED FUND BALANCES

Reserved fund balance represents that portion of fund balance which is either not subsequently appropriated for expenditure or legally segregated for a specific use.

State Medicaid requires that the Center establish and maintain a funded reserve balance to cover the cost of all services provided. The amount of this reserve fund must be at least equal to the Center's expected average expenses for all services for a 60-day period. This funded reserve is calculated at total projected annual expenses divided by twelve, times two. The Center must notify the Department of Health in writing if the funded reserve drops below the required balance. The Center determined that this amount at June 30, 2006, was \$1,870,000. The Medicaid Contract also establishes that the Center may be responsible for unanticipated inpatient costs in excess of annual premiums. The Center has determined to reserve \$200,000 for this risk pool. On July 1, 2001, the Center switched to a partially self-funded health plan. The Center contracted with Public Employees Health Program (PEHP) to process claims submitted by its covered employees. The Center has determined to reserve \$125,000 for this self funded insurance. Also, the Center has reserved \$1,870,000 for a 60-day capital reserve and \$1,300,000 for future capital projects.

In addition, \$391,933 has been placed with a trustee that has been reserved for debt service.

NOTE 11: RISK MANAGEMENT

The Center carries commercial insurance for its automobile and general liability and uses the state carrier for its workers' compensation coverage. Unemployment compensation is handled on a cost of benefits reimbursement basis with the State of Utah. For its employees, the Center carries commercial insurance for long term disability policies. Additional liabilities are not incurred from the settlement of claims under these policies. On July 1, 2001, the Center switched to a partially self-funded health plan which includes dental for its employees. The Center contracted with Public Employees Health Program (PEHP) to process claims submitted by its covered employees. The following wording is from the contract: "All agencies participating in the Risk Pool shall participate in a self-funded Reinsurance Plan governed by the Utah State Retirement Board. The Reinsurance Plan covers specific stop-loss for claims of individuals exceeding \$75,000 annually. It also covers aggregate stop loss coverage of the Risk Pool exceeding 110% of expected claims up to 125% of expected claims. Claim dollars up to 110% and in excess of 125% are paid by the Risk Pool."

REQUIRED
SUPPLEMENTARY
INFORMATION

SOUTHWEST BEHAVIORAL HEALTH CENTER
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
Year Ended June 30, 2006

| | <u>Budgeted Amounts</u> | | | Variance |
|---|-------------------------|---------------------|---------------------|------------------------------------|
| | <u>Original</u> | <u>Revised</u> | <u>Actual</u> | <u>Favorable (Unfavorable)</u> |
| REVENUES: | | | | |
| Contracts & Grants | \$ 5,026,517 | \$ 5,054,562 | \$ 4,989,391 | \$ (65,171) |
| Medicaid | 4,860,535 | 4,860,535 | 5,119,726 | 259,191 |
| Local Participation | 425,875 | 425,875 | 425,875 | - |
| Client Fees | 155,000 | 155,000 | 144,055 | (10,945) |
| Insurance Payments | 130,000 | 130,000 | 128,245 | (1,755) |
| Interest Income | 175,000 | 325,000 | 427,906 | 102,906 |
| Other Collections/Fees | 115,500 | 202,500 | 192,619 | (9,881) |
| Miscellaneous | 120,000 | 120,000 | 102,691 | (17,309) |
| Total Revenues | 11,008,427 | 11,273,472 | 11,530,508 | 257,036 |
| EXPENDITURES: | | | | |
| Salaries & Wages | 5,946,595 | 5,734,495 | 5,222,866 | 511,629 |
| Fringe | 1,960,740 | 1,866,740 | 1,919,272 | (52,532) |
| Total Payroll & Related Expenses | 7,907,335 | 7,601,235 | 7,142,138 | 459,097 |
| Professional Fees & Subcontracts | 1,049,463 | 1,136,463 | 1,225,876 | (89,413) |
| Travel | 230,000 | 234,000 | 234,686 | (686) |
| Workshops & Training | 65,000 | 85,000 | 84,163 | 837 |
| Supplies & Services | 390,000 | 450,000 | 428,650 | 21,350 |
| Space/Maintenance | 280,000 | 367,500 | 353,916 | 13,584 |
| Communications | 218,000 | 297,500 | 259,887 | 37,613 |
| Insurance | 155,000 | 155,000 | 139,987 | 15,013 |
| Capital Outlay | 125,000 | 1,390,000 | 1,080,805 | 309,195 |
| Miscellaneous | 51,500 | 51,500 | 35,130 | 16,370 |
| Debt Service: | | | | |
| Principal Retirement | 223,836 | 316,369 | 313,619 | 2,750 |
| Interest | 223,836 | 238,836 | 230,643 | 8,193 |
| Total Expenditures | 10,918,970 | 12,323,403 | 11,529,500 | 793,903 |
| Excess (Deficit) Of Revenues Over Expenditures | 89,457 | (1,049,931) | 1,008 | 1,050,939 |
| Beginning Fund Balances | 8,162,278 | 8,162,278 | 8,162,278 | - |
| ENDING FUND BALANCE | \$ 8,251,735 | \$ 7,112,347 | \$ 8,163,286 | \$ 1,050,939 |

The notes to the financial statements are an integral part of this statement.

OTHER
SUPPLEMENTARY
INFORMATION

SOUTHWEST BEHAVIORAL HEALTH CENTER

Combining Schedule of Expenditures

For the Year Ended June 30, 2006

| | Mental Health | Substance Abuse | Other Programs | Administration | Total |
|----------------------------------|----------------------------|----------------------------|--------------------------|----------------------------|-----------------------------|
| EXPENDITURES: | | | | | |
| Salaries & Wages | \$ 2,824,820 | \$ 1,192,796 | \$ 105,455 | \$ 1,099,795 | \$ 5,222,866 |
| Fringe | 1,001,912 | 500,175 | 24,391 | 392,794 | 1,919,272 |
| Total Payroll & Related Expenses | <u>3,826,732</u> | <u>1,692,971</u> | <u>129,846</u> | <u>1,492,589</u> | <u>7,142,138</u> |
| Professional Fees & Subcontracts | 729,729 | 18,943 | 203 | 477,001 | 1,225,876 |
| Travel | 149,316 | 40,933 | 643 | 43,794 | 234,686 |
| Workshops & Training | 44,964 | 33,094 | - | 6,105 | 84,163 |
| Supplies & Services | 264,114 | 113,416 | 6,746 | 44,374 | 428,650 |
| Space/Maintenance | 250,085 | 59,859 | 14,415 | 29,557 | 353,916 |
| Communications | 137,761 | 31,546 | 1,917 | 88,663 | 259,887 |
| Insurance | 11,323 | 5,245 | 2,605 | 120,814 | 139,987 |
| Capital Outlay | 488,755 | 238,402 | - | 353,648 | 1,080,805 |
| Miscellaneous | 27,316 | 111 | - | 7,703 | 35,130 |
| Debt Service: | | | | | |
| Principal Retirement | - | - | - | 313,619 | 313,619 |
| Interest | - | - | - | 230,643 | 230,643 |
| Total Expenditures | <u><u>\$ 5,930,095</u></u> | <u><u>\$ 2,234,520</u></u> | <u><u>\$ 156,375</u></u> | <u><u>\$ 3,208,510</u></u> | <u><u>\$ 11,529,500</u></u> |

The notes to the financial statements are an integral part of this statement.

SOUTHWEST BEHAVIORAL HEALTH CENTER

Agency Funds

Combining Statement of Changes in Assets and Liabilities

Year Ended June 30, 2006

| | Balance 30-Jun-2005 | Additions | Deductions | Balance 30-Jun-2006 |
|---|------------------------|------------------|--------------------|------------------------|
| <u>Local Interagency Council</u> | | | | |
| <u>Assets</u> | | | | |
| Cash | \$ 20,666 | \$ 373 | \$ (11,900) | \$ 9,139 |
| Accounts Receivable | - | - | - | - |
| Total Assets | <u>\$ 20,666</u> | <u>\$ 373</u> | <u>\$ (11,900)</u> | <u>\$ 9,139</u> |
| <u>Liabilities</u> | | | | |
| Accounts Payable | \$ - | \$ 315 | \$ - | \$ 315 |
| Other Liabilities | 20,666 | 373 | (12,215) | 8,824 |
| Total Liabilities | <u>\$ 20,666</u> | <u>\$ 688</u> | <u>\$ (12,215)</u> | <u>\$ 9,139</u> |
| <u>Payroll Cafeteria Fund</u> | | | | |
| <u>Assets</u> | | | | |
| Cash | \$ 6,902 | \$ 32,237 | \$ (30,194) | \$ 8,945 |
| Accounts Receivable | 1,170 | 1,197 | - | 2,367 |
| Total Assets | <u>\$ 8,072</u> | <u>\$ 33,434</u> | <u>\$ (30,194)</u> | <u>\$ 11,312</u> |
| <u>Liabilities</u> | | | | |
| Accounts Payable | \$ 142 | \$ 3,382 | \$ (142) | \$ 3,382 |
| Due To Other Funds | 7,930 | - | - | 7,930 |
| Other Liabilities | - | 26,812 | (26,812) | - |
| Total Liabilities | <u>\$ 8,072</u> | <u>\$ 30,194</u> | <u>\$ (26,954)</u> | <u>\$ 11,312</u> |
| <u>TOTALS-ALL AGENCY FUNDS</u> | | | | |
| <u>Assets</u> | | | | |
| Cash | \$ 27,568 | \$ 32,610 | \$ (42,094) | \$ 18,084 |
| Accounts Receivable | 1,170 | 1,197 | - | 2,367 |
| Total Assets | <u>\$ 28,738</u> | <u>\$ 33,807</u> | <u>\$ (42,094)</u> | <u>\$ 20,451</u> |
| <u>Liabilities</u> | | | | |
| Accounts Payable | \$ 142 | \$ 3,697 | \$ (142) | \$ 3,697 |
| Due To Other Funds | 7,930 | - | - | 7,930 |
| Other Liabilities | 20,666 | 27,185 | (39,027) | 8,824 |
| Total Liabilities | <u>\$ 28,738</u> | <u>\$ 30,882</u> | <u>\$ (39,169)</u> | <u>\$ 20,451</u> |

The notes to the financial statements are an integral part of this statement.

SINGLE AUDIT
AND OTHER
REQUIRED
INFORMATION

SOUTHWEST BEHAVIORAL HEALTH CENTER

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2006

| Federal or Pass-Through Grantor | Federal CFDA # | Expenditures | Major Program |
|---|-------------------|----------------------------|------------------|
| <u>U.S. DEPT. OF HEALTH & HUMAN SERVICES:</u> | | | |
| Passed Through Utah State Dept. Of Human Services | | | |
| Division Of Substance Abuse (SAPT Block Grant) | 93.959 | \$ 1,208,477 | X |
| Division Of Substance Abuse (KD&A Program) | 93.230 | 37,760 | |
| Division Of Mental Health Services: | | | |
| Block Grant for Community Mental Health Services | 93.958 | 168,200 | |
| Comprehensive Community Mental Health Services for Children | 93.104 | 205,896 | |
| Total U.S. Dept. Of Health & Human Services | | <u>1,620,333</u> | |
| <u>U.S. DEPT. OF EDUCATION:</u> | | | |
| Passed Through Utah State Dept. Of Human Services | | | |
| Division Of Substance Abuse-Drug Free Schools | 84.186B | 35,786 | |
| Drug Free Schools Passed Through: | | | |
| Beaver County School District | 84.186A | 5,862 | |
| Garfield County School District | 84.186A | 5,157 | |
| Iron County School District | 84.186A | 37,808 | |
| Kane County School District | 84.186A | 6,857 | |
| Washington County School District | 84.186A | 65,000 | |
| Total U.S. Dept. Of Education | | <u>156,470</u> | |
| TOTAL FEDERAL EXPENDITURES | | <u><u>\$ 1,776,803</u></u> | |

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note A: Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Southwest Center and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general purpose financial statements.



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

TO THE AUTHORITY BOARD
SOUTHWEST BEHAVIORAL HEALTH CENTER
ST. GEORGE, UTAH

We have audited the financial statements of the governmental activities and each major fund of Southwest Behavioral Health Center as of and for the year ended June 30, 2006, which collectively comprise the Center's basic financial statements and have issued our report thereon dated October 12, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended for the information and use of the Southwest Behavioral Health Center Authority Board, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Afu. Buckner Everett & Graff-A

HAFEN, BUCKNER, EVERETT & GRAFF, PC

October 12, 2006



**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

TO THE AUTHORITY BOARD
SOUTHWEST BEHAVIORAL HEALTH CENTER
ST. GEORGE, UTAH

Compliance

We have audited the compliance of the Southwest Behavioral Health Center with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The Center's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Center's management. Our responsibility is to express an opinion on the Center's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Center's compliance with those requirements.

In our opinion the Center complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of the Center is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable

to federal programs. In planning and performing our audit, we considered the Center's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the Southwest Behavioral Health Center's Authority Board, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Afen. Buckner, Everett & Graff

HAFEN, BUCKNER, EVERETT & GRAFF, PC
October 12, 2006

SOUTHWEST BEHAVIORAL HEALTH CENTER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006

I. SUMMARY OF AUDITORS' RESULTS

- A. Type of audit report issued on the financial statements: Unqualified opinion.
- B. Reportable conditions in internal control disclosed by the audit: None.
- C. Instances of noncompliance material to the financial statements: None.
- D. Reportable conditions in internal control over major programs disclosed by the audit: None
- E. Type of report issued on compliance for major programs: Unqualified opinion.
- F. Audit findings required to be reported under paragraph .510(a): None.
- G. Major Programs:

| <u>Program</u> | <u>CFDA</u> | <u>Amount</u> |
|--|-------------|---------------|
| Block Grant for Prevention and Treatment of Substance Abuse | 93.959 | \$ 1,115,295 |

- H. Dollar threshold used to distinguish between Type A and B programs, as described in paragraph .520(b): \$300,000.

- I. The Southwest Behavioral Health Center qualifies as a low-risk auditee under paragraph .530.

**II. FINDINGS RELATED TO THE FINANCIAL STATEMENTS WHICH ARE REQUIRED TO BE REPORTED
IN ACCORDANCE WITH *GENERALLY ACCEPTED GOVERNMENTAL AUDITING STANDARDS***
Finding: None

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS AS DEFINED IN PARAGRAPH 510(A)

| <u>FINDING</u> | <u>QUESTIONED COSTS</u> |
|----------------|-------------------------|
| None | None |



AUDITORS' REPORT ON STATE LEGAL COMPLIANCE

TO THE AUTHORITY BOARD
SOUTHWEST BEHAVIORAL HEALTH CENTER
ST. GEORGE, UTAH

We have audited the financial statements of the governmental activities and each major fund of Southwest Behavioral Health Center as of and for the year ended June 30, 2006, which collectively comprise the Center's basic financial statements and have issued our report thereon dated November 30, 2006. As part of our audit, we have audited the Center's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah's Legal Compliance Audit Guide for the year ended June 30, 2006. The Center received the following major state assistance programs from the State of Utah:

- General Mental Health Services (Dept. of Human Services)
- Alcohol & Drug Treatment (Dept. of Human Services)
- Alcohol & Drug Prevention (Dept. of Human Services)
- Residential Service (Dept. of Human Services)

The Center also received the following nonmajor grants which are not required to be audited for specific compliance requirements: (However, these programs were subject to testwork as part of the audit of the Center's financial statements).

- High Risk Youth (Dept. of Human Services)
- Community Outplacement (Dept. of Human Services)
- SICA Grant - Prevention (Dept. of Human Services)
- Passar Evaluation (Dept. of Human Services)
- S.A.P.A. Grant (Dept. of Human Services)

Our audit also included testwork on the Center's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide:

- Public Debt
- Cash Management
- Special Districts

- Purchasing Requirements
- Budgetary Compliance
- Other Compliance Requirements

The management of the Center is responsible for the Center's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the Center's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with requirements referred to above, which are described in the accompanying management letter. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, the Southwest Behavioral Health Center, complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State assistance programs for the year ended June 30, 2006.

Alex. Buckner Everett & Graff, PC

HAFEN, BUCKNER, EVERETT & GRAFF, PC
October 12, 2006

HAFEN
BUCKNER
EVERETT
& GRAFF PC
CERTIFIED PUBLIC
ACCOUNTANTS

October 12, 2006

AUTHORITY BOARD
SOUTHWEST BEHAVIORAL HEALTH CENTER
ST. GEORGE, UTAH

We have audited the financial statements of the governmental activities and each major fund of Southwest Behavioral Health Center as of and for the year ended June 30, 2006, which collectively comprise the Center's basic financial statements and have issued our report thereon dated October 12, 2006. In planning and performing our audit, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control.

Our audit made in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, including the study and evaluation of the Center's system of internal control over financial reporting for the year ended June 30, 2006, that was made for the purposes set forth in the first paragraph of this report, would not necessarily disclose all weaknesses in the system because it was based on selective tests of accounting records and related data. However, such study and evaluation disclosed the following conditions that we believe should be brought to your attention.

Prior Year Findings:

Fund Balance

Finding: Utah State Law provides that the maximum unreserved fund balance should not exceed 25 percent of the current year revenues. At June 30, 2005, the Center's unreserved fund balance was \$4,009,544 which was \$918,499 more than the maximum fund balance allowed by state law.

Recommendation: We recommend that the Center comply with the state requirement by reserving additional funds identified for capital needs or operational requirements.

Status: This has been corrected in the current year.

- 40 -

90 EAST 200 NORTH
ST. GEORGE, UT 84770
FAX: (435) 673-6166
(435) 673-6167

Budget

Finding: For the year ended June 30, 2005, the Center's expenditures exceeded the amount appropriated in the final adopted budget which is a violation of state law. This appeared to be due to not including the specific board approval of significant capital outlay in the revised budget.

Recommendation: We recommend that the Center's expenditures not exceed the amount appropriated in the final adopted budget.

Status: This has been corrected in the current year.

DEPOSITS

Finding: There were a few instances of not depositing monies within three banking days as required by state law.

Recommendation: We recommend that management reemphasize this requirement with each of the responsible employees at each location.

Status: There was only one instance noted during the current year.

Credit Cards:

Finding: It came to our attention during the audit that there was a credit card in both the Center and the employee's name that was being used by the employee to purchase personal items for which the employee then reimbursed the Center. The statement for this credit card was mailed by the credit card company to the employee who then brought it to the Center for payment. We understand that the employee no longer has this credit card.

Recommendation: We recommend that the Center establish a policy prohibiting the use of any credit card in the Center's name for employee personal purchases. We further recommend that the statements be mailed directly to the Center's accounts payable department.

Status: This has been corrected in the current year. The credit card account above has been closed and each of the other credit card statements are mailed directly to the Center.

Bank Deposits

Finding: The Center had bank deposits of \$1,244,977 that were uninsured and uncollateralized.

Recommendation: We recommend that the Center's bank deposits be insured or collateralized.

Status: During the current year, the amount was \$1,319,453.

Some of the funding agencies of the Center have asked us to review the following items:

1. Review the allocation of personnel costs, supplies and administrative costs to verify that it is reasonable and consistent with prior years. This allocation appeared to be reasonable and consistent with prior years.
2. Review the allocation substance abuse costs including personnel costs, supplies and administrative costs between treatment and prevention. This allocation appeared to be reasonable and consistent with prior years.
3. Review related parties and conflict of interest of board members and management. Nothing came to our attention that appeared to be improper.
4. Review all compensation and reimbursements of management. Nothing came to our attention that appeared to be improper.
5. Are all required policies in place and operating? The required policies appeared to be in place and operating.
6. Review the timeliness and support of the Center's billings. The Center's billing appeared to be submitted on a timely basis and supported by sufficient costs.
7. The 20% local match requirement has been met in both the Substance Abuse and Mental Health programs.
8. The required 20% of the SAPT Block Grant has been allocated and spent on Prevention programs.

It is important to recognize that a letter of this type is intended to be constructive in nature, and that the absence of positive or complimentary comments is not intended to imply that the operation is not efficient or sound.

Because the above comments are not based on a special study of matters covered, further evaluation of our suggestions may be necessary on your part as a basis for implementation.

We appreciate the help and cooperation provided by the Center personnel during the course of our audit. We would be pleased to discuss these matters with you further at your convenience.

Yours truly,

Hafen, Buckner, Everett & Graff, PC

HAFEN, BUCKNER, EVERETT & GRAFF, PC



SOUTHWEST CENTER

Behavioral Health Services

Paul I. Thorpe

Executive Director

November 8, 2006

Authority Board
Southwest Behavioral Health Center

Dear Authority Board Members;

We welcome the opportunity to work with an independent accounting firm each year to not only produce the annual financial statements, but to also reassess our system of internal management controls. We appreciate the professionalism and cooperation exhibited by the firm of Hafen, Buckner, Everett & Graff in performing their audit work for the fiscal year 2006, and offer the following responses to the findings and recommendations included in their management letter dated October 12, 2006,

DEPOSITS

Finding: There was only one instance noted during the current year (of not depositing monies within three banking days as required by state law).

Recommendation: We recommend that management reemphasize this requirement with each of the responsible employees at each location.

Center Response: *We agree with the finding and recommendation, and will periodically remind responsible staff of this requirement.*

Bank Deposits

Finding: The Center had bank deposits of \$1,319,453 that were uninsured and uncollateralized.

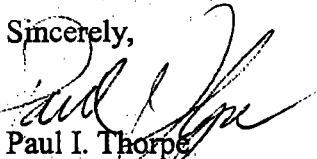
Recommendation: Although not specifically required under State statutes, we recommend that the Center's bank deposits be insured or collateralized.

Center Response: *We agree with the finding that on the specific date of June 30, 2006, the Center had a cash deposit balance of \$1.3 million that was uninsured and uncollateralized. We make every attempt to minimize our local cash balances because it would be very cumbersome or costly to insure or collateralize large balances on an*

ongoing basis. In this case, we had left instructions with the State Treasurer to transfer excess funds in the amount of \$450,000 to the State Treasury, but our instructions were misinterpreted and instead, they transferred that amount into our local accounts, and there was not time to correct the situation before June 30. We will continue to manage the Center's cash so as to minimize any banking risk, while at the same time providing adequate liquidity and maximizing investment returns.

Again, we welcome the annual assessment of our internal management control system, and are gratified that the auditor's findings were largely complimentary of that system, and also noted that prior year recommendations had largely been implemented. Should you have any questions or concerns regarding our proposed plans to address the management letter recommendations, we would be happy to discuss them further with you.

Sincerely,



Paul I. Thorpe
Executive Director